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SUBJECT: PRT KUNDUZ: SPINZAR AGAIN SPINS WHITE GOLD

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Summary

1. (SBU) Kunduz's Spinzar Factory began cotton processing again for the first time in years. The factory was the economic focal point of the region when it was a state-owned enterprise in the pre-Taliban era. Now under new French-Afghan management, the factory hopes to compete in the domestic and international markets. Following a management shuffle, the factory has recently purchased 1000 metric tons (MT) of cotton and has resumed baling; oil and cake production are to follow. Though the initial production run is unlikely to achieve even its seasonal goal of 7000 MT, the resumption of cotton processing at the Spinzar Factory has had a powerful symbolic effect, with even officials in neighboring provinces citing it as an example of economic and social progress. End Summary.

2. (SBU) PRTOff met with Hashmatullah Rahimi, a Ministry of Commerce employee who recently took up his position as Chief of the Spinzar cotton processing factory in Kunduz. Spinzar ("white gold" in Pashto) was one of the largest industrial organizations in pre-war Afghanistan, operating throughout the Northern provinces and largely responsible for Kunduz's pre-war economic success and modernization. Producing cotton for the international market, Spinzar owned a variety of processing factories, canals, warehouses, houses and other living quarters and at least one hospital. Today, the Spinzar Empire operates under the aegis of the Ministry of Commerce, though its core cotton processing has spun off since 2004 as a French-Afghan joint venture called the New Afghan Project for Cotton and Oil Development (NAPCOD). The new company is co-owned by Dagris S.A. (52 percent), a French cotton and textile company majority owned by the French Development Agency, and the Afghan Government.

3. (SBU) From 2004 until early 2008, NAPCOD operated under French management working hard to reestablish cotton farming in the region by disseminating improved seed, arranging credit for farmers, and working with agents who train farmers on better techniques. An experimental farm in Baghlan Province allows the company to test new strains and techniques. As reported in REFTEL, NAPCOD had a fundamentally flawed business plan. In order to distribute seed more efficiently, NAPCOD organized local farmers into cooperatives who would act as intermediaries between the company and individual farmers. In return for the seed handout, NAPCOD essentially expected to pay lower than market price for the cotton. GIROA's role as silent partner was to suppress competition by cracking down on the illegal cotton ginning operations that had sprung up in the years since Spinzar had ceased operation.

4. (SBU) Predictably, the plan did not work. When NAPCOD returned to the cooperatives to purchase their product in harvest season, they generally found them disbanded, with the farmers having already

sold their product elsewhere. As Rahimi explains, the "cooperative" concept is alien to Afghanistan and while farmers will come together in the summer to get free or subsidized seed, there is no need for the cooperatives at harvest season, when they are looking to sell their product at the best possible price. In addition, GIROA has proven unwilling or simply unable to clamp down on the smaller ginning operations, which clearly fill a domestic market need.

¶5. (SBU) With the cotton harvest looming, NAPCOD management met in October to discuss their strategic problems and chart the path forward. The joint venture decided to jettison NAPCOD's French management, who operated to the tune of some USD 500 thousand annually, and replace them with a Ministry of Commerce/Spinzar management team under the direction of Rahimi. Rahimi's top priority has been to make Spinzar immediately operational. Upon assuming authority, he promptly purchased 1000 MT at the market rate and hired 60 employees to kick-start cotton baling. His seasonal target is to process 7000 MT by March, to restart oil and cake production and to bring the staff up to 100 employees. He plans to increase production to 10,000 MT next year.

¶6. (SBU) Rahimi believes that NAPCOD will eventually beat out its smaller ginning competitors by increasing Afghanistan's cotton output overall, squeezing the smaller gins out of the market. Rahimi says a market exists for Afghan cotton far above the current 25 to 30 thousand metric tons currently being produced. NAPCOD provides access to the world market and Pakistan, he believes, can easily absorb 20 thousand MT, while Spinzar's oil and cake products will be consumed domestically. At its peak, Afghanistan produced around 100 thousand metric tons of processed cotton per year and the smaller gins simply cannot process cotton at those volumes; market saturation will squeeze the smaller gins out of the market. Rahimi wants to encourage the use of new seed stock, which could increase yield from 350 to 700 kg per jirib, and welcomes any assistance or

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advice from USAID or the U.S. Department of Agriculture.

Comment

¶7. (SBU) Although a variety of other businesses have recently opened their doors in the Northeast region, the resumption of cotton processing at the Spinzar Factory has had a powerful symbolic effect, with even officials in neighboring Takhar and Baghlan provinces citing it as an example of significant regional economic and social progress. It is unclear if NAPCOD's management shuffle will have much of an impact on the viability of the enterprise, as the only apparent change in strategy so far has been to get the plant operational at a too high price point. Moreover, Spinzar's initial baled product, in the opinion of visiting U.S. Department of Agriculture advisors, does not currently meet world standards of density or quality. While such technical standards will undoubtedly increase as the operation progresses, it is questionable if Afghan cotton can realistically compete once again on the world market, given other Central Asian competitors who produce on a vast scale. However, any effort at crop diversification in the North should be lauded; most of the valuable agricultural land is used for the production of only wheat and rice, whereas the land would be better utilized for high-value fruit orchards or vegetable crops.

WOOD